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TO RUEHC/SECSTATE WASHDC IMMEDIATE 4040
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUCPDOG/DEPT OF COMMERCE WASHDC
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C O N F I D E N T I A L SECTION 01 OF 02 REYKJAVIK 000068

SIPDIS

State for EUR/NB and OES/OA
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E.O. 12958: DECL: 04/06/2019

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SUBJECT: ICELANDIC INTERIM MINISTER OF FINANCE AND FISHERIES
CONFIDENT ON IMF PROGRESS AND ICESAVE NEGOTIATIONS

Classified By: Ambassador Carol van Voorst for reasons 1.4 (b) and (d).

11. (C) Summary: During the Ambassador's farewell call, a tired looking and clearly over-worked Steingrímur J. Sigfússon was confident about the upcoming elections, happy with the progress with the IMF, and encouraged by Iceland's negotiating position with the IceSave accounts. Sigfússon's roles as Minister of Finance, Minister of Fisheries and Agriculture, Deputy Prime Minister, and Leader of the Left Green Party generated an expansive and wide ranging conversation. If his party participates in the new government, Sigfússon said that progress with IMF will continue on the new Letter of Intent, Iceland will press harder for favorable loan terms from the U.K. and the Netherlands on IceSave, and the commercial whaling quotas will be reduced in the future. Sigfússon also said he was considering seeking bilateral loans from the U.S. and Canada (the Ambassador explained why he should not look to the U.S.) and believes that Iceland is unlikely to seek E.U. membership any time soon. End Summary.

12. (C) During the April 7 office call, Sigfússon confessed to the Ambassador that he is extremely busy in his multiple roles of Minister of Finance, Minister of Fisheries and Agriculture, Head of the Left Green Party and Deputy Prime Minister. He said that he would be surprised if there were any big changes in the polls in the last few weeks before elections, and barring some significant event, he expected the interim government to return to office.

13. (C) Sigfússon admitted that he was never a proponent of an International Monetary Fund (IMF) loan for Iceland and felt that a better option would have been to seek a Nordic-EFTA package of loans. Sigfússon said he put a lot of work into that idea in November (while he was in opposition) but was stymied by the former government. He commented that a recent rise in public sentiment to abandon the IMF obligations is being fueled "by the news from Latvia." However, as a minister, he recognized that it is very important that the IMF program continue and he emphasized that the IMF representatives he has met have been professional and helpful. He said work was being finalized now with IMF in Washington on a new agreement to be completed soon after Easter, which will then be presented to the IMF Board for consideration. Sigfússon said Iceland has missed the annual meeting deadline but hopes the board will meet in early May.

14. (C) On IceSave, Sigfússon felt the recent U.K. Parliamentary report which criticized the U.K. government use of terrorism finance laws against Iceland and Icelandic banks in October 2008 puts Iceland in a stronger negotiating position. Sigfússon said the report was harsh, and to his mind depicts Chancellor of the Exchequer Alistair Darling as lying about why the terrorism act had to be invoked. Sigfússon cited the recent meeting between Foreign Minister Óssur Skarphedínsson and British Secretary David Miliband and his own recent correspondence with Dutch authorities as helpful in keeping communications open. He said that the Icelanders are also giving the

U.K. and the Netherlands updated information on the overall debt situation, which looks worse than it did in October/November. He said at that time the IMF predicted debt as 160 to 170 percent of GDP, but those figures have now been revised to 200 to 225 percent of GDP. Sigfusson said the Icelandic people "are prepared to honor their obligations," but to pay for the aggressive and speculative "behavior abroad is unjust and unfair." Sigufsson stressed that the terms of the loans to cover the IceSave minimum deposits are essential -- it's very important that Iceland receive low rates with a long grace period.

15. (C) On whaling, Sigfusson reiterated that his hands were legally tied by the decision of his predecessor and that he has made it known that if the interim government returns after the election, it will work to undo future commercial whaling. Sigfusson confirmed he had received the letter from Whole Foods grocery store, warning that it will find substitutes for Icelandic products if whaling continues, but did not seem to take it seriously. He admitted that he had received a stack of similar letters but hadn't read them all. The impression he left was that he is looking forward to handing the Fisheries portfolio to someone else in the next government.

16. (C) Sigfusson said he wants greater cooperation with the U.S. He especially wants to talk with the U.S. and Canadian governments about bilateral loans to Iceland. The Ambassador clarified the lack of a mechanism or legislative authority in the U.S. for such loans to advanced nations. He commented that the loan Russia promised would probably not happen because the Russians have not shown much real interest and are seeking additional information from Iceland. Sigfusson, who is an opponent of joining the E.U., gamed out for us that regardless of who wins the parliamentary elections, the Althingi is likely to be largely anti-Icelandic accession to the E.U. He

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remarked that the Independence Party copied his party's platform and they too are not pro-EU but would let the public decide the issue in a public referendum if it came to that stage. He thinks EU accession is doubtful in the near future.

van Voorst